



A REPORT
TO THE
MONTANA
LEGISLATURE

LEGISLATIVE AUDIT
DIVISION

16P-05

PERFORMANCE AUDIT

Montana Heritage Commission: Managing Virginia City, Nevada City, and Reeder's Alley Historic Properties

Montana Heritage Commission

APRIL 2017

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PERFORMANCE AUDITS

Performance audits conducted by the Legislative Audit Division are designed to assess state government operations. From the audit work, a determination is made as to whether agencies and programs are accomplishing their purposes, and whether they can do so with greater efficiency and economy.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Members of the performance audit staff hold degrees in disciplines appropriate to the audit process.

Performance audits are conducted at the request of the Legislative Audit Committee which is a bicameral and bipartisan standing committee of the Montana Legislature. The committee consists of six members of the Senate and six members of the House of Representatives.

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April 2017

The Legislative Audit Committee
of the Montana State Legislature:

This is our performance audit of the Montana Heritage Commission (MHC) management of its historic properties. Overall, we found MHC manages its properties in a manner that both preserves the properties and encourages economic stability as required by law.

However, our work identified opportunities for MHC to adopt a more business-oriented approach by engaging commissioners more fully, improving organizational planning processes, and gathering additional information. We make three recommendations related to these issues in the report. A written response from MHC is included at the end of the report.

We wish to express our appreciation to MHC members and personnel for their cooperation and assistance during the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

		<u>Location</u>	<u>Term Expires</u>
Montana Heritage Commission	Marilyn Ross, Chairperson	Twin Bridges	May 2019
	Bill Howell, Vice-Chairperson	West Yellowstone	May 2019
	Matthew Marcinek (Representing the Director of Fish, Wildlife & Parks)	Helena	Permanent
	Jennifer Pelej (Representing the Director of Commerce)	Helena	Permanent
	Bruce Whittenberg (Director of the Historical Society)	Helena	Permanent
	Cyndy Andrus	Bozeman	May 2017
	Bill Beck	Whitefish	May 2018
	Barbie Durham	Cameron	May 2019
	David Hoffman	Helena	May 2017
	Shera Konen	Ennis	May 2019
	Timothy Lehman	Billings	May 2017
	Philip Maechling	Florence	May 2019
	Stan Ozark	Glasgow	May 2019
	Andy Poole	Helena	May 2017
	Elijah Allen, Executive Director	Virginia City	N/A



MONTANA LEGISLATIVE AUDIT DIVISION

PERFORMANCE AUDIT

Montana Heritage Commission: Managing Virginia City, Nevada City, and Reeder's Alley Historic Properties

Montana Heritage Commission

APRIL 2017

16P-05

REPORT SUMMARY

Montana Heritage Commission earned revenues have increased every year since 2012, from \$335,442 to \$515,212 in 2016. Since 2011, MHC has reduced staff by 60 percent and staff expenditures by more than \$400,000 by cutting six positions. MHC manages its properties in a manner that both preserves the properties and encourages economic stability as required by law. We found opportunities for MHC to adopt a more business-oriented approach through engaging commissioners more fully, improving organizational planning processes, and gathering additional information to support its business plan.

Context

The buildings and artifacts making up the attractions in Virginia and Nevada Cities were purchased by the state for \$6.5 million in 1997. The purchase included 148 buildings, 160 acres of land, and 1 million artifacts that are currently estimated at a value, for insurance purposes, of nearly \$50 million. In order to manage the properties, the Legislature also established the Montana Heritage Commission (MHC) in 1997, tasking it with hiring staff and running day-to-day operations in Virginia and Nevada Cities. MHC properties expanded in 2000 with the addition of Reeder's Alley, including Pioneer Cabin, in Helena.

commissioners and MHC staff, and observing visitor activities at MHC historic locations.

Compared to peer organizations, we found MHC to be a sustainable historic preservation organization. Our audit work determined MHC manages its properties in a manner that both preserves the properties and encourages economic stability as required by law. However, there is room for improvement in the areas of commissioner engagement, organizational planning, and information collection. This audit makes the following three recommendations to MHC.

Results

Audit work included analyzing financial documents to determine trends from fiscal years 2012 through 2016, including private and public funding levels. Audit work also included reviewing governance documents from fiscal years 2012 through 2016, researching meeting notes from 1997 through 2016, attending MHC meetings, interviewing

- ♦ Strengthen and improve commission engagement by providing training, developing a commissioner's job description, and providing specific materials to new commissioners.
- ♦ Expand its information collection practice to include gathering and documenting assumptions and other background data used to develop business plans, and demographic

(continued on back)

and other detailed data regarding visitors and their MHC attraction preferences.

- ◆ Strengthen its organizational planning processes by expanding its business and strategic planning to include other information such as timelines, assessment of current resources, and strategic analysis.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

Chapter I – Introduction and Background

Introduction

When the Legislative Audit Committee identified its preferences for 2016 performance audits, the management of the state's historic properties in Virginia City, Nevada City, and Reeder's Alley generated high interest. The Montana Heritage Preservation and Development Commission, known as the Montana Heritage Commission (MHC), the entity responsible for managing these properties, received the second highest ranking from the committee. In 2002-03, the Legislative Audit Division conducted a performance audit of the effectiveness of the management of Virginia and Nevada Cities and made five recommendations relating to strengthening site management through the development of business-like controls and defined accountability. Recommendations addressed reallocating staff resources, consolidating property management, prioritizing artifact management, re-defining the role of the Commission, and restructuring site management. The Commission concurred with the majority of the recommendations and follow-up audit work shows they have been implemented. The audit also recommended MHC no longer be attached to the Montana Historical Society and, instead, be attached to the Parks Division of Montana Fish, Wildlife, and Parks; it is no longer attached to the Montana Historical Society and is currently attached to the Department of Commerce (DOC). In this chapter, we discuss how MHC is now organized and how it currently manages its properties. We describe specific audit work completed and the objectives we used to direct our current efforts.

Organizational and Funding Changes Have Occurred at MHC

There have been organizational and funding changes at MHC since 2003. It is administratively attached to DOC, to which MHC pays an administrative fee in exchange for assistance related to human resources, legal work, and some public relations. Management staff now lives in Virginia City and a staff evaluation system is in place. The Environmental Quality Council (EQC) studied MHC during both the 2011-12 and 2013-14 interims and developed EQC-sponsored legislation for the 2015 session, which passed. This legislation removed a prohibition for MHC to receive general fund appropriations and also removed the requirement that MHC manage properties in a way which "encourages economic independence." Per §22-3-1001, MCA, the commission shall now manage the properties in a manner that "encourages economic stability," largely removing the idea that the historic properties will eventually be self-sufficient. This current audit was performed in order to provide the most recent information regarding how MHC is being managed.

Audit Scope and Objectives

In order to provide current information about MHC management, planning, activities, and funding, our audit focused on fiscal years 2012 through 2016. In some instances other materials were reviewed, such as meeting notes from 1997 to the present to determine changes in priorities and structure over a longer time period. In addition, long-time concessionaires were asked to describe MHC management approaches over the time they have been renting from MHC. During assessment and early audit work we developed four objectives, identified below, related to researching MHC's management and how it plans for the future. The first two objectives are designed to ascertain the necessary features of successful management and planning tools for historic organizations similar to MHC. The last two objectives focus more on MHC's work and determining how it aligns with best practices. Audit work also compared MHC activities to what Montana law requires of the commission related to the management of its properties and assessed the quality of the information used in MHC governance and planning documents. The four objectives for our work are as follows:

1. Determine best practices for the management of MHC properties compared to peer organizations.
2. Quantify the public and private funding levels necessary for MHC to manage its properties.
3. Determine if MHC is managing its properties in a manner that both protects the properties and encourages economic stability.
4. Evaluate data and assumptions used in MHC's strategic and business plans for relevancy and accuracy.

Audit Methodologies

To address our objectives, we conducted the following audit work:

- ♦ Interviewed MHC members and staff to determine processes used to manage the organization's work, what management views as priorities, and if they believe MHC manages properties in a manner that both protects the properties and encourages economic stability.
- ♦ Reviewed MHC enabling statute and related administrative rules to determine what requirements related to things such as commission membership, state funding, and artifact disposal are placed on MHC, and if there had been any recent changes in those requirements.
- ♦ Observed visitor interactions at MHC properties to determine the general demographics of visitors, which attractions received the most traffic, and if visitors were engaged by the displays.
- ♦ Interviewed concessionaires regarding their interactions with MHC to determine if they believe current MHC management is attentive to their needs and, with long-time concessionaires, ascertain how they view current management related to previous management circumstances.

- ♦ Observed MHC quarterly meetings to determine how the staff, commissioners, and local leaders interact with each other regarding the management of MHC properties.
- ♦ Analyzed MHC meeting notes from 1997 through 2016 to determine how MHC balances its dual economic and preservation responsibilities and how these responsibilities have evolved during this time frame.
- ♦ Analyzed MHC financial information from fiscal years 2012 through 2016, to determine MHC's priorities as well as the accuracy and relevancy of the data in its strategic and business plans.
- ♦ Researched and interviewed staff from ten peer organizations in the region to determine best practices for organizations similar to MHC.
- ♦ Researched eight historic organizations, two tourism groups, the federal Small Business Administration, and other experts in organizational strategic and business planning to determine best practices related to the management of MHC.

What Is the Montana Heritage Commission?

In 1997, the Legislature authorized the state's purchase of the buildings and artifacts making up the attractions in Virginia and Nevada Cities for \$6.5 million. The purchase included 148 buildings, 160 acres of land, and 1 million artifacts. The collection is currently estimated at an appraised value of nearly \$50 million for insurance purposes by the Department of Administration's Risk Management and Tort Defense Division. In order to manage the properties, the legislature established MHC in 1997, tasking it with hiring staff and running day-to-day operations at the sites.

Per §22-3-1001, MCA, the purpose of the MHC "is to manage, on behalf of the state, properties that possess outstanding historical value, display exceptional qualities worth preserving, and are genuinely representative of the state's culture and history." The MHC is responsible for managing its properties in a manner that protects the properties and encourages economic stability. MHC properties include the towns of Virginia and Nevada Cities that lie approximately a mile apart along Alder Gulch in Madison County, the site of one of the richest gold strikes in the Rocky Mountains. MHC works to keep the towns looking much as they did in 1863, when the gold rush was occurring, as illustrated by these two photos (see Figure 1 on page 4) of a street in Virginia City. One is taken in 1864 and the other is present day.

Figure 1
Virginia City at 300 Wallace Street
 In 1864 and Present Day



Source: Montana Heritage Commission website.

Virginia and Nevada Cities include displays depicting life in the 1860s, and MHC offers a variety of activities such as panning for gold or riding a tour train. Other venues such as historic lodging, live theater shows, gift and specialty shops, fine dining, and old-fashioned ice cream and candy shops are operated by concessionaires in buildings owned by MHC. Other stores and eateries are owned and operated by private owners. Some businesses are open year-round but most are open only in the summer months. MHC properties expanded in 2000 with the addition of Reeder's Alley, including the Pioneer Cabin, in Helena. This location is also a mix of public and private ownership, with concessionaires running businesses out of the historic buildings. Examples include a restaurant, a barber shop, and non-profit offices. In addition, MHC rents out facilities in Reeder's Alley for meetings and weddings.

Montana Heritage Commission Membership

Roles and Responsibilities

A 14-member commission sets the direction of MHC, with staff responsible for carrying it out. The details are largely at the discretion of an executive director hired by MHC to implement work related to MHC priorities. The commission meets every three months and the executive director reports to them regarding the activities of MHC and the commission votes on various items, particularly those related to the budget and preservation activities. Section 22-3-1002, MCA, establishes the commission membership, which includes three state of Montana department directors, two appointments made by legislative leadership, and nine members of the public appointed by the governor. Membership requirements include:

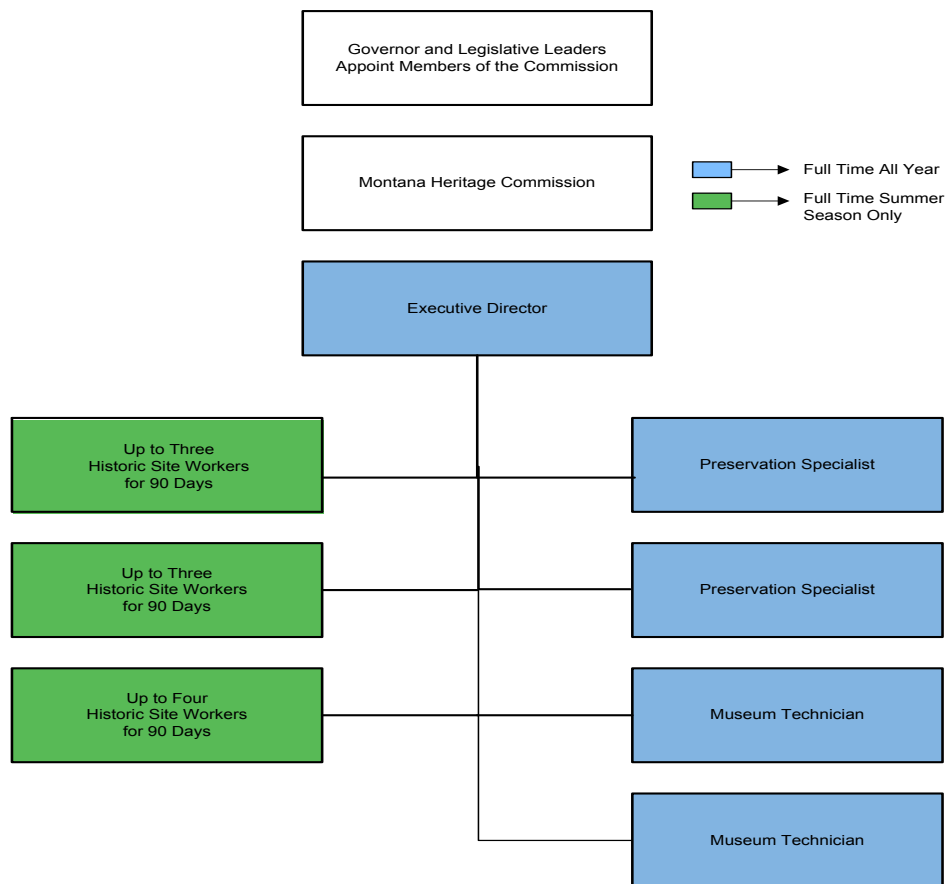
- ♦ One member must have extensive experience in managing facilities that cater to the needs of tourists.

- ◆ One member must have experience in community planning.
- ◆ One member must have experience in historic preservation.
- ◆ Two members must have broad experience in business.
- ◆ One member must be a member of the tourism advisory council.
- ◆ One member must be a Montana historian.
- ◆ Two members must be from the public at large.

MHC Staffing Levels

MHC staff consists of five full-time employees working year-round, including one executive director, two preservation specialists, and two museum technicians. In addition, three additional full-time equivalent positions are used to hire up to ten seasonal staff to cover additional tasks occurring in the peak summer season. These tasks include staffing the Virginia City Welcome Center and the Nevada City Museum, selling tickets to attractions, operating the tour train traveling between Virginia and Nevada Cities, running the “River of Gold” gold-panning attraction, and selling merchandise. MHC has contractual agreements for other services. For example, MHC has contracted with the “Visit Helena” organization to book visits, answer visitor questions, and rent meeting and wedding spaces in Reeder’s Alley. Figure 2 (see page 6) illustrates MHC’s current organizational structure.

Figure 2
Montana Heritage Commission Organization Chart

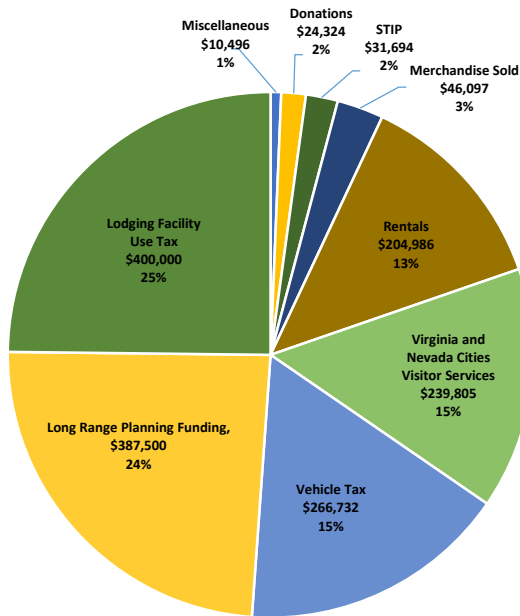


Source: Compiled by the Legislative Audit Division from commission records.

Montana Heritage Commission Funding

To pay for MHC activities such as restoring historic buildings, preserving artifacts, and offering new activities for visitors at the sites, revenue comes from state sources and donations. MHC raises some of its own funding also, through earned revenue, which is funding coming into the organization from sources like the sale of tour train tickets, rental of historic properties, and the sale of merchandise. In fiscal year 2016, MHC's budget included \$1.5 million in funding coming from several different sources. Figure 3 (see page 7) identifies these sources with their total amount and percentage of all fiscal year 2016 revenue.

Figure 3
Montana Heritage Commission Funding Sources
 Fiscal Year 2016



Source: Compiled by the Legislative Audit Division from commission records.

As shown in Figure 3, the largest sources of funding are the Lodging Facility Use Tax (i.e. bed tax), long range planning funding, and the vehicle tax. Each revenue source is described below.

♦ The bed tax has provided \$400,000 in annual revenues since 1997, when MHC was organized.

♦ Long range planning funding is legislatively-approved access to funds for specific projects. MHC uses it for repairing historic buildings. This funding must be approved each legislative session.

♦ The vehicle tax comes from the Montana State Parks surcharge on license plates designated for MHC. MHC receive 38 cents from every \$6 voluntary license fee for state parks.

♦ State law directs MHC to make its own money through revenue generating activities at the historic sites, such as sales of panning for gold tickets and tour train ride tickets. This is included in the Virginia and Nevada Cities Visitor Services.

- ♦ Rental funding comes into MHC from contracts with various concessionaires, or renters, operating their businesses at historic properties owned by MHC.
- ♦ Merchandise sold includes tee-shirts, coffee mugs, books, and other miscellaneous items. Items sold are usually MHC-branded.
- ♦ MHC maintains a Short Term Investment Pool (STIP) account in order to cover cash-flow shortfalls during certain times of the year. Having access to this money is important to MHC because vehicle tax payments from the state do not always coincide to the increased payroll costs in the spring and early summer.
- ♦ Donations covers private individuals and organizations contributing to the work of MHC.
- ♦ Miscellaneous includes various smaller categories such as film fees and refunds for overpayment of utilities due to budget billing.

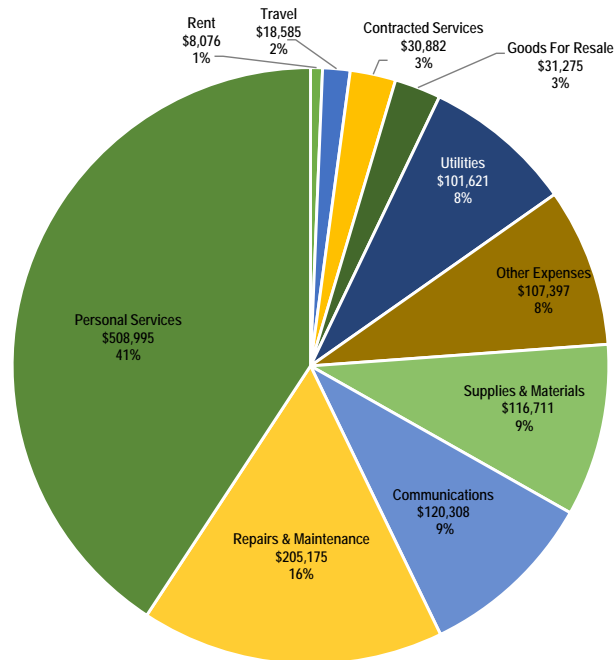
Montana Heritage Commission Expenditures

In fiscal year 2016, MHC's budget expended a total of \$1.2 million to support its operations as shown in Figure 4. Personal services is the largest expenditure for MHC followed by repair and maintenance of buildings.

There are several different areas where MHC expends funds to support its activities. This includes personal services, repair and maintenance of property, and communications. Each MHC expenditure category is described below:

- ◆ Personal Services is staff salaries and benefits for five full-time employees working year round including one executive director, two preservation specialists, and two museum technicians, as well as three additional full-time equivalent positions used to hire up to ten seasonal staff to cover additional tasks occurring in the peak summer season.
- ◆ Repairs and Maintenance is work to restore and maintain the historic properties managed by MHC.
- ◆ Communications refers to media advertising designed to get visitors to come to MHC properties.
- ◆ Supplies and Materials refers to items spent on improving and upgrading of historic properties such as installing an upgraded refrigerator in a building used by a concessionaire selling food.
- ◆ Other Expenses include various smaller categories such as rental of propane tanks for heating some historic buildings.
- ◆ Utilities includes water, gas, and/or electricity for many of the historic buildings.
- ◆ Goods for Resale is the inventory purchased to sell at MHC properties such as coffee mugs and tee shirts.
- ◆ Contracted Services are expenditures relating to numerous relationships MHC has with organizations and individuals to assist in managing its properties. MHC has contracted with the "Visit Helena" organization to

Figure 4
Montana Heritage Commission Expenditure Categories
Fiscal Year 2016



Source: Compiled by the Legislative Audit Division from commission records.

book visits, answer visitor questions, and rent meeting and wedding spaces in Reeder's Alley. It also includes work done to improve and upgrade historic properties that provide a revenue stream to MHC. For example, this category would include the labor needed to install a new roof in a building used by a concessionaire offering lodging.

- ♦ The travel line item covers the cost of MHC quarterly meetings such as travel reimbursement for commission members and food at the meetings.
- ♦ Rent is the cost of renting land for the tour train operation.

Sustainability, Protecting History, Economic Stability, and Planning Covered in Report

The remainder of the report presents audit findings, conclusions, and recommendations to the commission to improve MHC's operation and promote increased sustainability.

- ♦ Chapter II covers audit work related to identifying best practices for organizations similar to MHC and the characteristics all sustainable historic organizations have in common.
- ♦ Chapter III explores the audit work done to determine if evidence exists related to MHC's dual charge of protecting its historic properties while encouraging economic stability.
- ♦ Chapter IV presents our audit work related to evaluating data and assumptions used in MHC strategic and business plans for relevancy and accuracy.

Chapter II – Sustainability of Historic Organizations and Best Historic Site Practices

Introduction

This chapter addresses our objectives to determine best management practices for the Montana Heritage Commission (MHC) and quantify the public and private funding levels necessary for MHC to manage its properties. As part of this work, we reviewed similar historic preservation organizations in other states and national entities focused on the management of museum and tourism activities. We also reviewed the management practices of various national and local organizations. We conducted this work to compare the best management practices of these organizations to the operations of MHC and identify practices which could be adopted by MHC to improve its management. As part of our work, we also assessed the level of funding MHC has historically received to manage its responsibilities. We reviewed funding sources for MHC for the fiscal years 2012 through 2016. Overall, we concluded that MHC is similar to its peer organizations regarding management of historic properties and that MHC has already adopted many best practices. However, we also noted there is room for improvement in areas of commissioner engagement, collection of information, and increased planning. This review of peer organizations forms the basis of our findings in later chapters. As part of our review work, we found that there is no readily identifiable formula regarding the optimum public and private funding levels for similar state-managed historic organizations to manage their properties. Nonetheless, we determined MHC is currently managed using best practices and is on par with its peer groups regarding earned revenue. Ten characteristics established as being shared by all sustainable historic preservation organizations were compared to MHC's characteristics, and overall we determined that MHC generally meets these characteristics. This chapter presents our work in these areas.

Historic Organization Self-Sufficiency

In addressing the second of our four objectives, quantifying the public and private funding levels necessary for MHC to manage its properties, audit work found no best practices or standards related to necessary funding levels, nor are there any standards related to the ideal mix of public and private funding for historic organizations. Over the course of audit work, the concept of self-sufficiency was routinely described as not realistic among MHC's peer organizations unless there was a presence of a large benefactor or an on-going source of significant income. Our 2003 performance audit states, "In general, we found historic sites are not self-supporting." A recent report released by a panel of historians and organizational professionals regarding the sustainability of historic organizations stated, "A historic organization that expects to

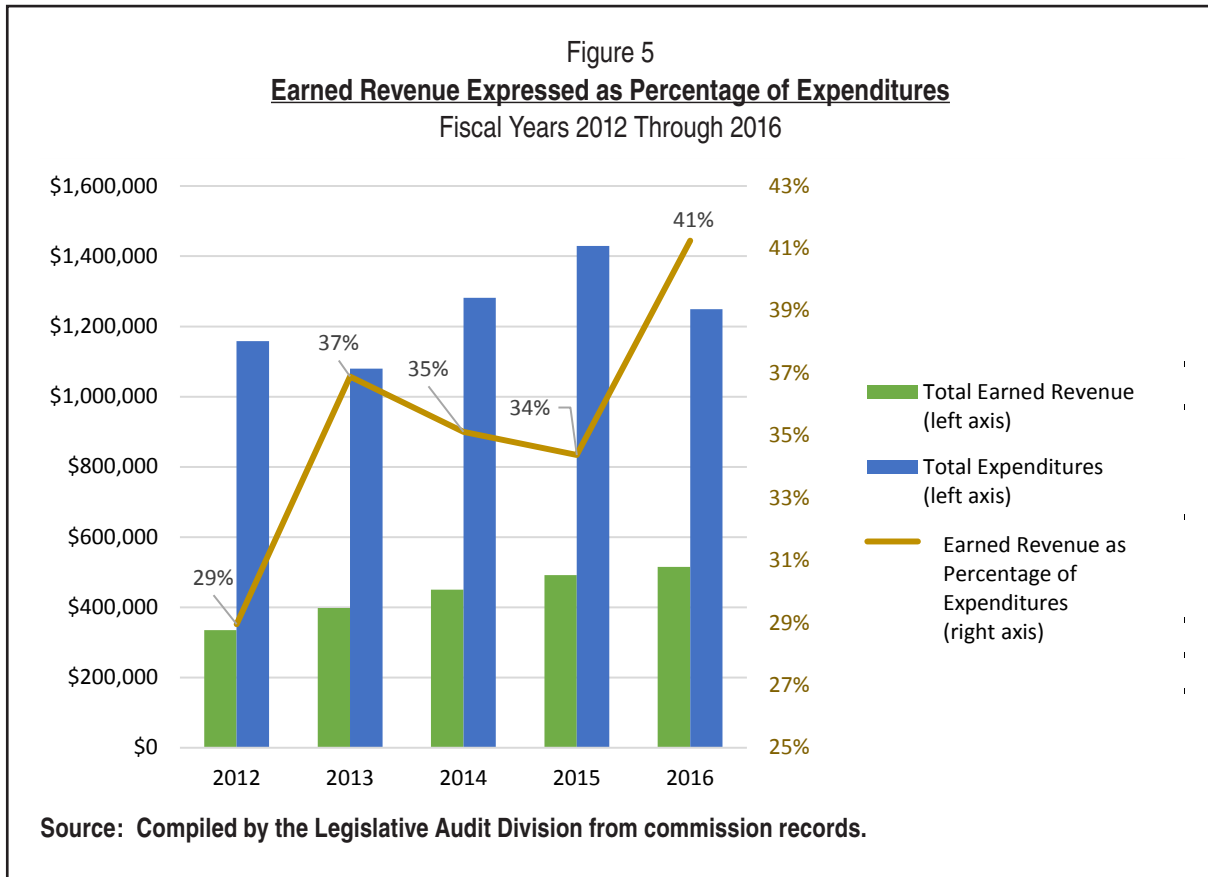
survive solely on admissions income, events, rentals, and donations will fail.” While self-sufficiency may have been the intention of the legislature when the state originally bought Virginia and Nevada Cities in 1997, current audit work shows it is not realistic to place that expectation on the organization. In 2015, the legislature changed the enabling statute to also reflect this idea. Until then, §22-3-1001, MCA, stated MHC should manage its properties, “...in a manner that protects the properties and results in economic independence.” The final phrase was changed in the 2015 Legislative Session and now reads, “encourages economic stability.”

MHC’s Earned Revenue Aligns With Peer Groups

Nationally, state parks and museums typically cover only 30 percent of their expenditures with earned revenues, which means revenue earned by the organization’s activities, such as selling merchandise and tickets to attractions. Audit work shows that MHC’s earned revenue is comparable to peer organizations. MHC earned revenue comes from a combination of the following four items:

- ◆ Virginia and Nevada Cities visitor services
- ◆ Merchandise sold
- ◆ Rentals
- ◆ Donations

MHC’s earned revenue increased from \$335,442 in fiscal year 2012 to \$515,212 in fiscal year 2016. We determined that in fiscal year 2012, MHC earned revenue as a percentage of expenditures was 29 percent, and earned revenue has consistently been over 30 percent since fiscal year 2013. Figure 5 (see page 13) illustrates MHC annual earned revenue and earned revenue as a percentage of expenditures since fiscal year 2012.



Characteristics of Sustainable Historic Organizations

What level of private and public funding is necessary for MHC to manage its properties? In the absence of standards specifically related to funding levels, this is not possible to answer. However, a related question can be answered, “Is MHC sustainable?” In October 2015, a panel of historians and organizational professionals released a study on the characteristics of sustainable historic organizations. The study defined “a sustainable organization” as one that, “through beneficial circumstances and good professional practices, generates enough financial and community support to guarantee its continued existence.” Ten characteristics identified by the study as generally existing in all sustainable historic organizations were compared to MHC’s characteristics.

This comparison allowed us to determine if MHC meets the ten characteristics. These characteristics are listed below along with our assessment of MHC’s possession of them. Our audit work included observing staff interacting with visitors to the sites, commission quarterly meetings, and staff collaborating with concessionaires. Based on these observations, we concluded MHC is thoroughly engaged with its community

as well as having an emphasis on collaboration. After analyzing MHC's financial documents and interviewing staff and commissioners, we determined that it does have a variety of funding sources, including government resources, and good stewards of its resources. The advertising materials distributed by MHC we reviewed indicate it is a member of the digital age with numerous electronic ways to enhance visitors' experiences at the historic sites. MHC has not over-expanded its physical resources; there has been one large new construction project that has been completed, the McFarland Curatorial Center, which was necessary to care appropriately for the historical artifacts. MHC has benefited from strong leadership and mostly successful transitions. Audit work of reviewing close to 20 years of meeting notes revealed this. MHC does govern largely according to best practices with strategic and business planning, but we found that improvements could be made in these areas. Audit work found that MHC possesses all ten characteristics of sustainable historic organizations; however, as shown specifically in the below table, some aspects of its governance, and strategic and business planning processes should be strengthened.

Table 1
MHC Characteristics Compared to Characteristics of Sustainable Historic Organizations

Identified Characteristic of Sustainable Historic Organizations	Does MHC have this Characteristic?
Variety of funding sources, including some government	Yes
Good steward of its resources	Yes
Thoroughly engaged with their community	Yes
Governance according to best practice	Yes; Could be Improved
Emphasis on collaboration	Yes
Careful with over-expanding physical resources	Yes
Member of the digital age	Yes
Strong leadership with successful transitions	Yes
Engages in strategic planning	Yes; Could be Improved
Operates from a business plan	Yes; Could be Improved

Source: Compiled by the Legislative Audit Division.

Best Practices for Managing Historic Properties

Managers of government programs are increasingly called upon to use limited resources in the most efficient and effective way possible when implementing programs. Whether developed at the federal level, or adopted and instituted by states, best practices and standards for state entities typically focus on continually seeking ways to improve

accountability in achieving an entity's mission through strategic planning and other practices. There are numerous sources for this kind of information that can be applied when reviewing MHC's current and future plans.

One useful approach is determining what has worked in similar organizations. Consequently, as part of audit work, we reviewed peer organizations from other states to determine how MHC practices aligned with what similar historic organizations were doing. We focused our research on states in the western region as well as states with smaller populations, and on organizations with historic buildings and artifacts comparable to MHC properties. The following table represents examples of the peer organizations we reviewed as part of our work.

<p>Table 2</p> <p><u>Sample of Peer Organizations Researched</u></p>		
Name	Location	Organization Type
Champoeg	Oregon	State Park
Deadwood	South Dakota	City
Fort Totten	North Dakota	State Historic Site
Frontier Homestead Museum	Utah	State Park
Old San Diego	California	State Park
Rock Creek Station	Nebraska	State Historic Park
Theodore Roosevelt Medora Foundation	North Dakota	Private Local Non-Profit
This is the Place Heritage Park	Utah	Private Local Non-Profit
Walla Walla Museum	Washington	City Park
Willa Cather Historic Site	Nebraska	Private Local Non-Profit
Source: Compiled by the Legislative Audit Division.		

Our audit work also included comparing MHC's practices to guidance about organizational best practices from various related Montana organizations, national groups, state government, and the federal government. Table 3 (see page 16) includes examples of the organizations whose guidance we reviewed as part of our work.

Table 3
Sample of Organizational Guidance Reviewed

Name	Location	Organization Type
American Alliance of Museums	Washington, DC	National Non-Profit
Government Accountability Office	Washington, DC	Federal Government
Montana Department of Administration	Montana	State Government
Montana Nonprofit Association	Montana	State Non-Profit
National Heritage Areas (NHAs) program	Washington, DC	Federal Government
Small Business Administration	Washington, DC	Federal Government

Source: Compiled by the Legislative Audit Division.

Best Practices of Organizations Managing Historic Sites

Relevant best practices information guidance from the above groups is summarized and combined into five best practices that can provide direction for MHC.

1. **Commissioner Engagement:** Best practices indicate that an oversight body (board of directors or commission) should clearly understand its responsibilities and receive information to fulfill those responsibilities. Its role in overseeing the strategic direction of the organization includes scrutinizing, and possibly presenting alternative views to, management decisions.
2. **Communication and Coordination:** Organizations should avoid controls that are ad hoc, undocumented, and highly dependent on the skills, competence, and ethical values of one individual. This can be an especially troubling prospect for small organizations like MHC. Out of necessity, the executive director wields significant decision-making control, which in turn increases the need for the commission to be as fully engaged as possible, so commissioners can be certain their oversight is working.
3. **Identify a Vision:** Organizations should periodically identify and document their foundational elements such as vision/mission statements in a strategic plan that includes clear and measurable goals, and timelines for achieving these goals.
4. **Gather Data:** Organizations should consistently gather demographic data regarding visitor activity in order to determine if current efforts are succeeding and the make-up of future plans.
5. **Periodic Reviews:** An organization's management is responsible for establishing, maintaining, and periodically reviewing the status of controls designed to ensure the organization reaches its goals. As no single set of safeguards is universally applicable, the exact plan depends-in part-on the executive director's judgment of cost versus benefit of any potential safeguard for the organization.

Audit work found MHC is implementing many best practices, such as strategic and business planning and limited data collection. There are some areas MHC could improve, specifically commissioner engagement, information collection, and organizational planning processes. These areas of improvement form the basis of our audit findings discussed in later chapters.

CONCLUSION

While there is not an industry standard which quantifies a ratio of public versus private funding for the management of publicly-owned historic sites, MHC's earned revenue aligns with peer organizations and MHC possesses many characteristics of a sustainable organization. MHC is being managed with best practices and in a manner in that will ensure the preservation of the historic sites for which it is responsible.

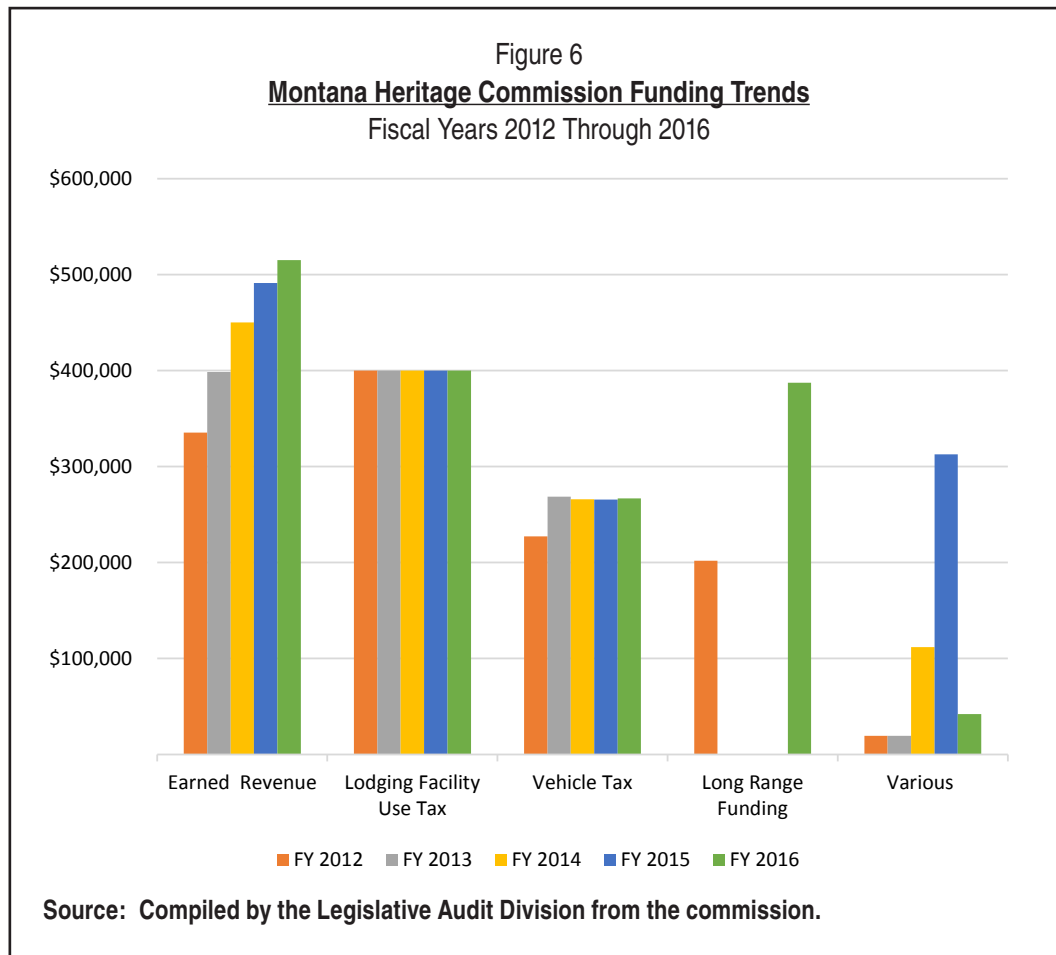
Chapter III – Safeguarding Historic Properties and Fostering Economic Stability

Introduction

This chapter addresses our third objective, to determine whether the Montana Heritage Commission (MHC) is managing its properties in a manner that both protects the properties and encourages economic stability. Since its inception MHC has experienced competing priorities. State law requires MHC to manage its properties in a manner that protects the properties and encourages economic stability. To determine if MHC is doing this, our audit work reviewed various MHC activities for evidence regarding the organization's priorities. This included reviewing nearly two decades of meeting notes, as well as five years of financial information, staff organizational structure, and current governance documents. Audit work found evidence of ongoing discussion and action of both preservation and economic enterprises. Throughout the almost 20 years of meeting notes, the discussion of both preservation and revenue generating opportunities took place at every meeting in some form. Our work indicates that MHC has taken many steps to act as a responsible steward for the historic properties for which it is responsible; however, we identified the need for MHC to continue in this vein and strengthen commissioner engagement. This chapter discusses this issue further and includes a recommendation to increase training for, and engage more fully, with commissioners.

MHC Funding Trends Include Static Bed Tax Revenue and Increasing Earned Revenue

Our audit work included looking for indications of MHC's priorities by analyzing MHC's funding for the past five years. While reviewing this financial information, we observed trends such as static lodging facility use tax funding and increasing earned revenues.



The above figure illustrates trends in MHC's funding for fiscal years 2012 through 2016.

Earned Revenue is made up of four categories taken together, Virginia and Nevada Cities (VC/NC) Visitor Services, Rentals, Merchandise Sold, and Donations. All have increased since 2012. The VC/NC Visitor Services is up largely because MHC has increased its offerings, such as taking on the operation of the gold-mining activity, and there are increasing numbers of visitors. MHC has been identified as the most visited state-owned attraction by the Office of Tourism in DOC since 2012, with currently more than 525,000 individuals visiting annually. This increase in visitors to the sites accounts for increases in merchandise sold and donations as well. Interviews with commission members and staff indicate that they believe this upward trend will continue as MHC plans to pull some of the large number of visitors in the Yellowstone area to Virginia and Nevada Cities. Audit work found that all concessionaires (renters) have signed contracts and are generally timely in paying their rent, which was not the case previously, leading to an upward trend in rentals. All spaces have been rented and contracts have been signed for a number of years into the future. Interviews with

concessionaires indicate they are pleased with their interactions with MHC and the improvements that have been made in lodging and restaurant venues. In addition, new revenue is coming from Reeder's Alley being rented for meetings and weddings, indicating a continued upward trend can be expected.

Lodging Facility Use Tax (i.e. bed tax) was the largest single funding source every year reviewed, and has remained static.

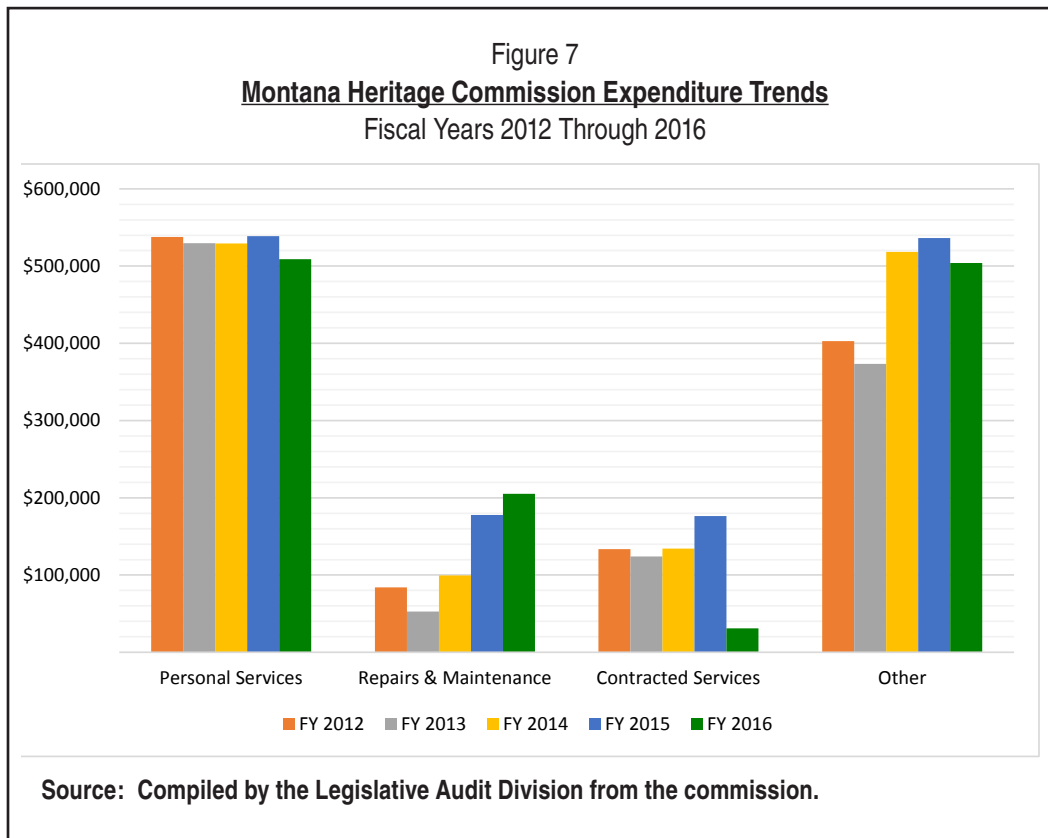
Vehicle Tax is the second largest single category in four of the five years reviewed, and has increased slightly. Vehicle tax revenue comes from 38 cents of every Montana State Parks \$6.00 surcharge on light vehicle license plates.

Long Range Planning Funding was the third largest funding category in 2016. MHC also received long range planning funding in 2012.

The **Various** category generally includes items like grants, land and property sales, and budget billing refunds for utility payments. In both 2014 and 2015, MHC received large grants that make this category noticeably larger in those years compared to other years.

MHC Expenditures Balance Historic Preservation and Economic Stability

Our audit work included looking for indications of MHC's priorities by analyzing MHC's expenditures for the past five years. While reviewing this financial information, we observed trends in expenditures also; our work found that during the five-year period reviewed, similar total amounts were paid for repairing historic buildings and upkeep of concessionaire sites.



Personal Services is the largest expenditure category across all years.

Repairs and Maintenance is generally work to repair and maintain the historic properties that do not usually provide a direct revenue source but are valued for their historic value. This need for work on historic buildings is on-going, and much of this activity is based on the availability of funding such as long range planning or private grants. During the five year period reviewed, MHC spent almost \$620,000 total on repairs and maintenance.

Contracted Services is largely for renovation and upkeep of historic sites, which MHC owns and rents to concessionaires, and provides revenue-streams for the organization. Examples include lodging, restaurants and shops. This category decreases in fiscal year 2016 because some large projects have been completed. In fiscal years 2012 through 2016, MHC spent close to a total of \$600,000 on contracted services. After a large renovation, MHC usually determines that an effort to recoup some of the investment through higher rental rates for the concessionaires is appropriate, although this not strictly adhered to.

The **Other** category in the figure includes typical business needs such as communications, travel, utilities, rent, and equipment.

MHC staffing also indicates a commitment to both aspects of the organization's responsibility. The current structure includes five full-time all-year staff, an executive director who manages MHC operations, two preservation specialists who perform restoration work on historic buildings, and two museum technicians who work with artifacts. During the non-peak season from October through April, staff generally work on preservation and repair activities of the buildings and artifacts. During the organization's busy season from May through September, the organization's focus is making sure guests have a positive experience. The museum technicians are in charge of managing the summer staff and keeping exhibits in good repair and visually appealing for visitors. There are up to ten 90-day seasonal employees added in the peak summer season to cover additional tasks such as staffing the Virginia City Welcome Center and the Nevada City Museum, selling tickets to attractions, operating a tour train, running the "River of Gold" gold-panning attraction, and selling merchandise. Observations of staff during the summer months and interviews with staff about their main duties, indicate a focus for staff on both preservation and economic stability. MHC's strategic plan also includes these priorities: preserve, sustain, promote, experience, partner, and manage. These priorities include both preservation and economic sustainability aspects.

MHC Has Improved Its Stewardship of Resources

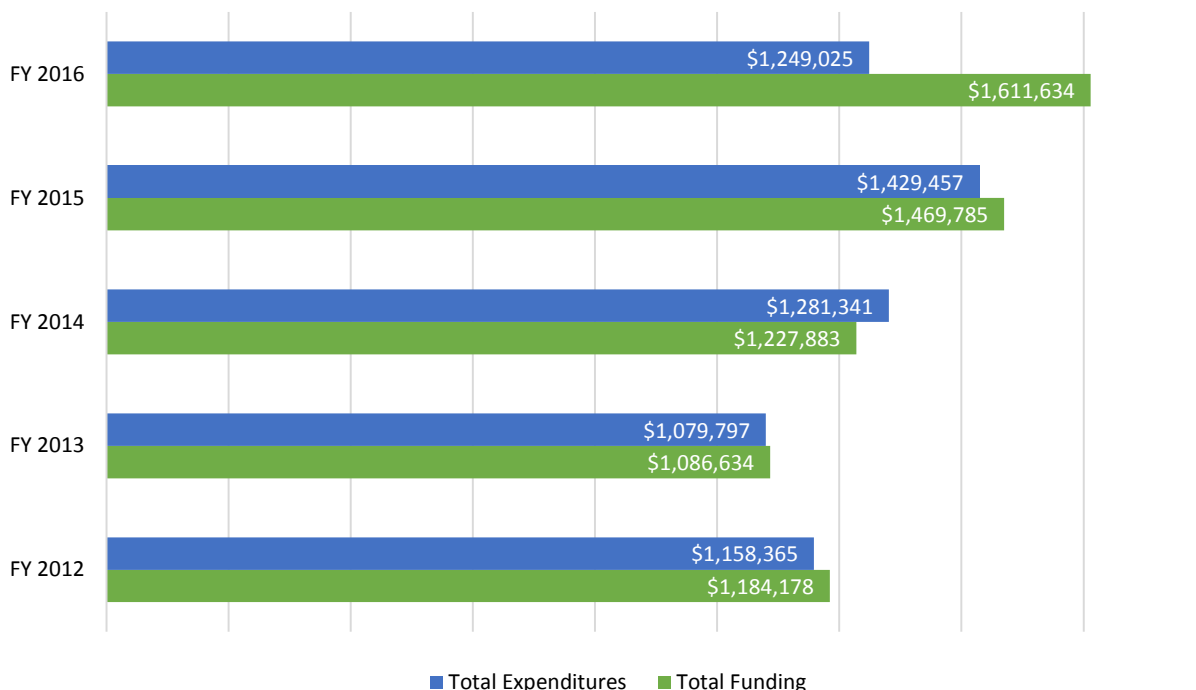
In 2011, under previous management, MHC faced an in-house reporting error resulting in a \$500,000 overstatement of MHC's cash reserves. In addition, federal grant money was diminishing. Interviews with commissioners indicated that due to this financial situation, the commission had to focus on its organization's priorities in a way that had not been previously required. It established its highest priorities, and funded only those. MHC eliminated and combined positions to create two new positions that express those priorities: a cultural resource manager with interpretation, collections, and archeology tasks, and a business development manager with tasks related to developing a business model and striving for greater economic stability.

Audit work found that one of the fundamental causes of the \$500,000 overstatement of MHC's cash reserves was that financial statements were not reconciled by MHC staff with the state's accounting records. When the commission became aware of these issues, it set out to improve their organization's controls. For example, it received additional guidance from the Department of Commerce (DOC) prohibiting duplicative accounting systems to the state accounting system to ensure the staff and commission were using accurate figures. It also developed a detailed job description for the business development manager, which evolved into the current executive director position, specifically stating what the person filling the position was expected to do, including financial reporting. Commissioner interviews indicated members were

concerned about this situation and wanted to ensure this did not happen again. We interviewed DOC accounting staff who indicated MHC has resolved the problem and communicates frequently with the DOC accounting staff. Also, the commission has increased its oversight of the executive director's role in financial reporting. In addition to the commission's quarterly meetings, the commission chairperson meets frequently with the executive director to discuss various items, including the current financial status of the organization.

In fiscal years 2012-2016, MHC was generally successful in keeping costs within the funding constraints. This figure indicates total MHC funding and total MHC expenditures on the final day of each fiscal year reviewed. In every year but 2014, funding exceeds expenditures. MHC staff report that this difference in 2014 was likely due to timing. June usually has a lower attendance rate compared to the rest of the summer months. The summer influx of funding to MHC from visitors staying in MHC accommodations, buying tickets for train rides, and buying merchandise may not have occurred until after June 30 and were recorded in the 2015 fiscal year.

Figure 8
Funding and Expenditures
Fiscal Years 2012 Through 2016



Source: Compiled by the Legislative Audit Division from commission records.

CONCLUSION

MHC manages its historic properties in a manner that both protects the properties and encourages economic stability as required by law, and is a good steward of its resources by increasing earned revenues and keeping expenditures below revenues, increasing the likelihood that state revenue for MHC will go toward their mandated activities and be used efficiently and effectively.

More Commissioner Engagement Needed

While we found that MHC presently manages its historic properties in a manner that both protects the properties and encourages economic stability, we identified a need for the MHC to increase commissioner engagement. Additional commission oversight of staff was one of the MHC's responses to the organization's need to re-design its operations described above. Our audit work found work is still needed in this area. One of the five best practices we identified related to oversight and the importance of the oversight body, such as the commission members, to clearly understand their responsibilities and receive information to fulfill those responsibilities. Their role in overseeing the strategic direction of the organization includes scrutinizing, and possibly presenting alternate views to, management decisions. Our audit work found that some commissioners are still unsure about what role they play in managing MHC activities and there is confusion regarding what is required of commissioners.

Active Oversight Requires Informed Commissioners

There are a variety of sources stressing the importance of having informed individuals performing oversight functions for organizations. The American Alliance of Museums has a Code of Ethics, which includes: "Museum governance is a public trust. The governing authority protects and enhances the museum's collections and programs and its physical, human and financial resources. Thus, the governing authority ensures that policies are articulated and prudent oversight is practiced. The governing authority also ensures all those who work for or on behalf of a museum understand and support its mission and public trust responsibilities." One of MHC's peer organizations has an oversight body of 28 individuals. Interviews with this organization's staff found this organization's oversight body has a clear understanding of its oversight responsibilities. The approaches used at this organization includes the executive director meeting with every new board member to discuss how the organization works and providing new board members with governance materials such as by-laws, strategic plan, and business plan related to the organization. Expectations that must be met are also placed on board members or the board member will be prohibited from being reappointed. These expectations include attending all three of the group's annual meetings during the

board member's three-year term, participation in monthly board committee activities, and other fundraising-related requirements. A best practice identified in audit work related to this issue is that organizations should avoid policies and procedures that are ad hoc, undocumented, and highly dependent on the skills, competence, and ethical values of an individual. Also, the best practices suggest developing board member job descriptions can be helpful in communicating those areas for which each board member is responsible. These descriptions often include the time commitment required and what tasks are required such as staff evaluation and voting on the organization's budget. MHC has detailed job descriptions for management staff but no job descriptions for commissioners.

Oversight Diminished by Limited Understanding of Commissioner Roles

When commissioners are unclear of their role in overseeing the activities of MHC, they are unable to scrutinize and question management's decisions, which is the duty of an oversight body. It is not possible for a commissioner with an incomplete understanding of his or her role to present alternative views. Consequently, MHC misses out on the commissioner's expertise and impartial evaluation of MHC and its operations. This results in diminished oversight by commission members. Just as past MHC staff needed clearer direction to understand their role precisely regarding financial duties after the 2011 reorganization, some commission members need clearer direction regarding their responsibilities. When all commissioners understand their oversight role more clearly, MHC as a whole will be in a better position to question decisions of MHC management (i.e. executive director) regarding allocation of resources, direction of business plans, and assessments regarding the achievement of the organization's goals. More informed commissioners will provide better oversight overall, and diminish the risk of over-dependence on staff as happened in 2011.

MHC Needs to Provide New Commissioners With Specific Information

Over the course of our audit work, commissioners and MHC staff interviewed indicate that some of the reasons commissioners may not know their role as well as they should is because of lack of information given to them when they came on as new commissioners, including training on how to best provide governance for MHC properties. MHC has made attempts to set up commissioner training regarding general duties of a board of directors and more specific topics related to MHC but none have come to fruition, the most recent being canceled because of anticipated low commissioner turnout. When asked why this was the case, a commissioner responded that the most recent training was proposed to occur at a different time than the regular quarterly commission meeting and this likely had a negative effect on possible attendance. MHC does provide

some materials for new commissioners but in an ad hoc manner and it is not clear that every commissioner has received all the basic governance documents such as by-laws and strategic and business plans. In addition, there is no document explaining precisely what is expected of commissioners, such as a MHC Commissioner job description. Without clear guidance and expectations for commission duties and responsibilities, all commissioners cannot be as fully engaged as they should be. MHC needs to add organizational safeguards to assure the commission is providing active and relevant oversight regarding MHC's strategic direction.

As required by law, MHC manages its historic properties in a manner that both protects the properties and encourages economic stability. Earned revenues are increasing and expenditures do not exceed funding, but the organization's ability to continue in this positive manner is at risk without stronger institutional capacities such as a completely engaged commission.

RECOMMENDATION #1

We recommend the Montana Heritage Commission improve commission engagement by:

- A. *Developing a commissioner's job description.*
 - B. *Developing a specific packet of governance materials for distribution to each new commissioner, such as Montana Heritage Commission most recent by-laws, strategic plan, business plan, and commissioner's job description.*
 - C. *Developing and implementing a training plan for all commission members.*
-

Chapter IV – Improving Montana Heritage Commission Strategic and Business Planning Processes

Introduction

This chapter addresses our objective to evaluate data and assumptions used in Montana Heritage Commission (MHC) strategic and business plans for relevancy and accuracy. In order to conduct this work, we analyzed five years of MHC financial information from fiscal years 2012 through 2016. We reviewed MHC's current strategic plan written in 2013 and finalized in 2016. We also reviewed MHC's 2013 and 2016 business plans, and compared financial information obtained from MHC with financial information regarding MHC activities within Montana's state accounting system. While our work found the data used by MHC to manage its properties are accurate and relevant, we also identified a need for MHC to obtain additional information regarding the underlying assumptions and estimated timelines for project completion of its business plans, as well as information related to resources needed and in both its strategic and business planning processes. This chapter discusses these issues further and makes two recommendations, one related to improving MHC's information-gathering processes and another related to enhancing MHC's planning processes.

MHC Business Plan Assumptions Needed to Understand Complete Picture

As part of our work, we noted that while MHC actively engages in business planning, it does not identify the assumptions used in its business plans, so it is not possible to determine if it is using accurate and relevant assumptions. When MHC Commissioners do not receive information about assumptions in the organization's business plan, they are not assured that they are assessing the success of items in the plan. There are potential changes in the local, state, and national economies, and other factors that could affect the number of visitors at their properties. Business plan assumptions are based on what the organization thinks is going to occur with forces outside the control of the organization. Market trends is an example. Our audit work found MHC anticipates its general attendance numbers in Virginia and Nevada Cities is on an upward trend, and will be for a few years. There are numerous reasons for this. MHC believes there is a largely untapped market of visitors for Virginia and Nevada Cities in the large number of tourists coming to the West Yellowstone area. Commissioners also anticipate that improvements to the properties and increased attractions, along with more targeted marketing, will continue to drive their numbers up. This assumption is important to know when assessing the success of new attractions. The assumption that the pool of possible attendees at a new attraction is anticipated to be larger than

last year should be included in the business plan. Breaking down and identifying the assumptions like this in business planning helps track accurate results. An incorrect assumption, rather than a flaw with a plan or its execution, may be the reason a project does not develop into the revenue stream it is anticipated to be. Assumptions used in putting together the projects in a business plan should be in the plan. If management does not believe there will be any fluctuations large enough to affect the business plan, that should be noted also. There is language in MHC's plans regarding anticipated revenue, potential number of visitors paying a certain attendance fee and other items, but staff is unable to produce the numbers and underlying supporting documentation for these projects.

Tactical Planning for Properties Possible With More MHC Visitor Data

Best practices reviewed in our audit work indicate that some of the most important information management can have in a tourism endeavor is the number of visitors, including demographic information about those visitors, when they visited a site, and what they most enjoyed. States generally gather information about tourists on a statewide basis. They compile data about trips to the state, where visitors come from, whether or not they have been to the state before, and whether they are overnight visitors. The University of Montana's Institute for Tourism and Recreation Research does this kind of work in Montana. Our audit work identified the need for MHC to gather demographic data and visitor activity in order to determine if current efforts are succeeding and what future efforts should look like. Demographic information collected would include things like age, residence, size of group, where else traveling, source of information regarding the sites, if they had visited the sites previously, and which attractions they enjoyed the most. Information regarding the popularity of MHC properties would increase MHC's ability to plan in a more tactical manner. In addition, this data is necessary to determine if previous decisions made about where to put resources have been correct or if they need to be adjusted. MHC staff indicated that they do informally collect some data regarding how visitors hear about the sites but nothing systematic. For example, staff at the Virginia City Visitor Center ask visitors how they heard about Virginia and Nevada Cities and then they write the answers down on a piece of paper, which is turned in to the executive director. This information is used to determine adjustments to marketing efforts. If radio ads are running, but very few respondents indicate they heard about Virginia City on the radio, the executive director will likely pull back on radio ads. In addition, they collect data regarding how many visitors come to Virginia City based on a car count and a formula used by the Montana Department of Transportation.

MHC Needs to Prioritize Expanded Data Gathering

A lack of management information is causing MHC to be unsure of which properties are the most/least popular with visitors and makes it difficult for MHC to determine where its resources should go in the future. With accurate, numerical hard data regarding MHC activities, MHC will increase its ability to be transparent and accountable related to the public funds for which it is responsible. MHC staff acknowledged data regarding visitors and which properties and attractions are the most popular is not currently collected in a deliberate way and would be helpful to the organization. When asked why this kind of information is not gathered, staff said that especially during the summer, with increased visitor traffic, all staff members are focused on the day-to-day tasks of running the historic sites. Consequently, gathering information for planning purposes has not been a priority. Audit work highlighted the need to identify and document assumptions in business plan in order to better track accurate results. Our audit work also identified the need for MHC to gather demographic data regarding visitors and their activity in order to determine the success of current efforts and plan for future efforts. Information regarding the popularity of MHC properties would increase MHC's ability to plan in a more tactical manner. At present, MHC does not systemically collect nor use data for planning purposes.

RECOMMENDATION #2

We recommend the Montana Heritage Commission expand its information collection practice to include:

- A. *Identifying and documenting assumptions and other background data used to develop business plans, and*
 - B. *Gathering demographic and other detailed data regarding visitors, their activities at the historic properties, and using this data for future resource allocation planning.*
-

Improving MHC's Strategic and Business Planning Processes

In addition to the information needs discussed above, MHC could more fully use its strategic and business planning processes in other ways. Organizations need to be especially purposeful about their planning activities. Generally, a business plan covers a shorter period of time and specific project ideas. MHC generally puts one out every three years. In contrast, a strategic plan is usually designed for a five-year period and includes more global concepts, such as mission and vision, as well as some details on specific projects. Organizational planning should assess the organization's potential, its

resources, and the context of its community. Best practices we reviewed as part of our work indicate that MHC should periodically identify and document its foundational elements such as its vision/theme, mission, clear measurable goals, timelines, objectives, policies, and procedures. This should be done in a formal strategic plan. Audit work found that MHC could strengthen its organizational planning processes to be more purposeful, useful, and to better document its intentions and accomplishments.

MHC Business Plan Should Answer Timeline and Resource Questions

Business planning is a way of answering, “Where are we going?” or “What are we trying to achieve?” Our audit work found that the 2013 and 2016 MHC business plans do answer those questions. Business plans should also answer, “Who will get us there, by when, and how much money and other resources will it take?” MHC business plans reviewed do not answer these last questions. For example, this is an excerpt from the 2016 Business Plan:

The school tours program started on 1 May 2013 and will continue this year through June 15. We estimate that the program will bring in \$50,000 in revenue annually, as we estimate that 5,000 students at an admission cost of \$10 each will be visiting Virginia/Nevada Cities through the program this year. This contribution is significant to MHC not only because of the revenue but because MHC has little visitor revenue in the May to mid-June time period otherwise.

This instance does address “Where is MHC going and what are they trying to achieve.” For example, the business plan sets a goal of bringing in \$50,000 in annual earned revenue for MHC. However, this business plan does not address, “Who will get us there, by when, and for how much money;” it should include what resources, including staff time, MHC will need to expend to successfully accommodate the 5,000 attendees. Business plans should include a timeline for completion, an evaluation of resources needed, and an assessment of staff time required for each proposed project.

Contextual Information Needed in Planning for Successful Transitions and Measuring Success Later

There is language in the MHC business plans regarding anticipated revenue, potential number of visitors paying a certain attendance fee and other items, but staff is unable to generate the numbers and supporting documentation regarding the context behind the statements regarding these projects. This is because they do not keep readily accessible information related to the proposals. Consequently, this reduces the usefulness of MHC’s business plans. In addition, MHC’s business plans have no timelines for completion, no clear staff assignments, and no estimation of resources needed for each projects. This information is needed to provide a more complete picture for MHC

and for its ability to track accomplishments and the implementation of the business plan more closely and accurately. Consideration of resource use in business plans is also necessary to measure if the plan has been implemented in a manner that matches the expectations of MHC. Currently, MHC organizational planning processes do not include an estimation of resources needed to complete projects or a formal mechanism to report the expenditure of those resources.

MHC Strategic Plan Should Answer Resource and Strategic Analysis Questions

Strategic planning is an organizational management activity used to set priorities, ensure that stakeholders are working toward common goals, and adjust an organization's direction in response to a changing environment. As part of our review of organizational best practices, we determined that, at a minimum, a strategic plan should include the following:

- ◆ A mission statement
- ◆ An outline of goals, objectives, and activities
- ◆ An assessment of current resources
- ◆ Strategic analysis

MHC's strategic plan has a mission statement, strategic priorities, objectives, and proposed strategies, but there is no assessment of current resources, nor is there strategic analysis. Strategic analysis is the step in the planning process in which an organization analyzes its goals, objectives, and activities and then determines how to allocate its resources among them. It is strategic because the goal is to allocate resources to those activities that will most help the organization meet its mission. The result of strategic analysis is a concrete determination of what quantity of the organization's resources, such as staff time and funding, will be allocated to each activity identified in the plan. MHC's strategic plan needs a way to tie practical ideas about how to make the best use of MHC's resources to achieve its objectives, goals, and mission. The inclusion of this kind of information would make the strategic planning process a more useful tool for MHC and increase the Commission's oversight of MHC operations. Consideration of resources used in strategic plans is necessary to measure if the plan has been implemented in a manner that matches the expectations of MHC. Lastly, with precise data regarding MHC activities and expectations in its strategic and business plans, MHC will increase its ability to be transparent and accountable with the public funds for which it is responsible by increasing its oversight capabilities.

MHC Needs to Strengthen Strategic and Business Planning

MHC staff acknowledged more information such as timelines and assessment of resources in the strategic plan and business plan could be helpful. When asked why these items were not included, staff said all staff members are busy focused on the day-to-day tasks of running the organization. Consequently, some aspects of strategic and business planning have not been a priority. MHC staff does informally report on the progress of various projects mentioned in planning documents but it is not in an organized way. MHC members and staff already understand the importance of fundamental organizational ideas such as business and strategic planning but need to engage in more direct communication regarding MHC's business and strategic planning process and goals. Best practices from our audit work stress that an organization's management is responsible for establishing, maintaining, and periodically reviewing the status of safeguards designed to ensure the organization reaches its goals. As no single set of safeguards is universally applicable, the exact plan depends, in part, on the MHC executive director's judgment of cost versus benefit of any potential new process for the organization. It is important to keep this in mind with an organization as small as MHC. New, large, and complicated strategic and business planning processes would not benefit MHC. Rather, additional work to expand its current processes to include additional elements will allow the organization to be more efficient and effective in managing the historic properties in Virginia and, Nevada Cities, and Reeder's Alley.

RECOMMENDATION #3

We recommend the Montana Heritage Commission strengthen its organizational planning processes by expanding its:

- A. *Business plans to include a timeline for completion, an evaluation of resources needed, and an assessment of staff time required for each proposed project.*
 - B. *Strategic plans to include an assessment of current resources, and a strategic analysis indicating how those resources will be distributed among activities identified in the plan.*
-

MONTANA HERITAGE
COMMISSION

COMMISSION RESPONSE



April 12th 2017

Mr. Angus Maciver
Legislative Auditor
Office of the Legislative Auditor
State Capital, Room 160
Helena, MT 59620-1705

RECEIVED
April 13, 2017
LEGISLATIVE AUDIT DIV.

Dear Mr. Maciver,

The Montana Heritage Commission has reviewed the legislative audit (16P-05) completed by the Legislative Audit Division. Our responses and corrective action plans for each recommendation are provided below.

Recommendation #1:

We recommend the Montana Heritage Commission improve Commission engagement by:

- A. Developing a commissioner's job description
- B. Developing a specific packet of governance materials for distribution to each new commissioner, such as Montana Heritage Commission's most recent by-laws, strategic plan, business plan, and commissioner's job description
- C. Developing and implementing a training plan for all commission members.

Response: Concur

In process of completing Montana Heritage Commission's job description with anticipated completion date of December 7th 2017. We delivered Commissioner packets with information of governance materials at the March 9th commissioner meeting. (MHC Commissioner Job Description is still needed in packet when completed). Training for the Montana Heritage Commissioner's is scheduled for the September and December meetings of 2017. The need for ongoing training will be necessary with 14 members terms rotating out every two-three years.

Recommendation #2

We recommend the Montana Heritage Commission expand its information collection practice to include:

- A. Identifying and documenting assumptions and other background data used to develop business plans.
- B. Gathering demographic and other detailed data regarding visitors, their activities at the historic properties, and using this data for future allocation planning.

Response: Concur

In 2016 from Memorial Day to Labor Day we had 562,818 tourists came to Virginia City and Nevada City making us the number one state-owned tourist destination for the 5th consecutive year. We have also completed an independent Economic impact study completed by the Rocky Mountain Economic Development District. The findings concluded that based on our tourist counts we had a 72.2 million gross economic output for the State of Montana. Virginia City and Nevada city contributed to 1186 jobs. When we use the gross economic output number as a return on investment the Montana Heritage Commission has one of the highest if not the highest return on investments of any other state agency.

While we are proud to be Montana's top tourist destination and have confirmed we are an economic driver for the State of Montana, The Montana Heritage Commission will always welcome opportunities for improvement and will put emphasis on best practices of other historic sites on a national level, we believe we have the potential to be a top attraction in the nation. We will visit, study and implement best practices of other historic sites that will better our historic sites on a continual basis with analysis of results at the end of each fiscal year.

Recommendation # 3

We recommend the Montana Heritage Commission strengthen its organizational planning process by expanding its:

- A. Business plans to include timeline for completion, an evaluation of resources needed, and an assessment of staff time required for each proposed project.
- B. Strategic plans to include an assessment of current resources, and a strategic analysis indicating how those resources will be distributed among activities identified in the plan.

Response: Concur

We will develop deadlines for business and strategic plans based on the available financial business capital to expand business opportunities. The Executive Director will be reporting on progress of objectives given in approved strategic plan at each Montana Heritage Commission meeting. We have developed a prioritized list of needs of heritage buildings and our Americana artifact collection and will continue to give weekly updates in written format as to the completion process. These weekly reports and annual reports will be located on our web-site at virginiacitymt.com as well as given to the public at their request.

Sincerely,

A handwritten signature in black ink, appearing to read 'Elijah Allen', followed by a large, sweeping flourish.

Elijah Allen, Executive Director
Montana Heritage Commission

A handwritten signature in black ink, appearing to read 'Marilyn Ross', written in a cursive style.

Marilyn Ross, Montana Heritage Board Chair
Montana Heritage Commission